

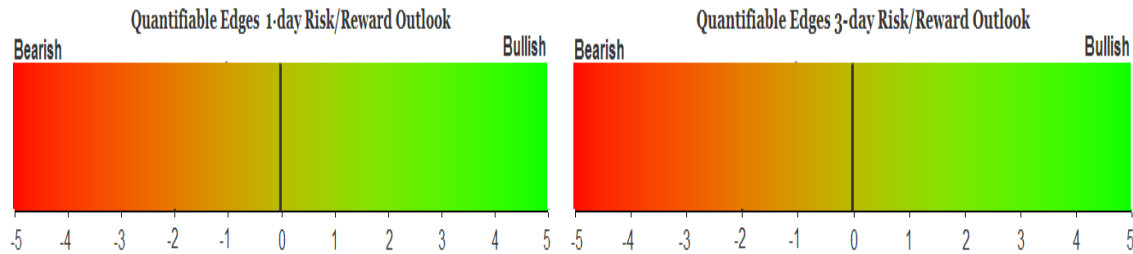
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 16, 2009

Volume 2 Issue 199

Market Overview



Tonight's Research Points

- Overbought in an uptrend does not suggest a bearish edge. An example that uses Bollinger Bands can be found near the bottom of the short-term outlook.
- CBOE Equity P/C Ratio, while very low on Thursday, is giving mixed signals.
- “2 Days Up In Chop” is still floundering and not a reliable indication at this point.
- The net expectation from the studies is now slightly bullish. Since SPX has already exceeded expectations over the last few days that put the Aggregator in a neutral state.

Short-term Outlook – updated 10/16

The Bottom Line

Momentum continues to drive the market higher. Bearish indications are weakening. I'm not excited about either side and would rather wait for a better setup.

Summary of Recent Active Studies (see <http://QuantifiableEdges.blogspot.com> or Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Max Move
Active				
October 15, 2009	Gap & Go to new high	1-2 days	Bearish	-1.30%
October 15, 2009	Breakout above 50-day high	1-5 days	Bullish	1.80%
October 14, 2009	SPX 5 up then down while > 200ma	1-9 days	Bullish	2.10%
Active - Long Term				
September 14, 2009	Nasdaq/S&P Lead/Lag Model		Bullish	
July 14, 2009	VIX:VXV drops below 0.9	2-5 months	Bearish	
Dropped Tonight				
October 15, 2009	CBOE Equity p/c 25% below 200ma	1 day	Bearish	

If the avg max move is achieved the study will appear in **bold italic blue** and no longer be active.

The Evidence

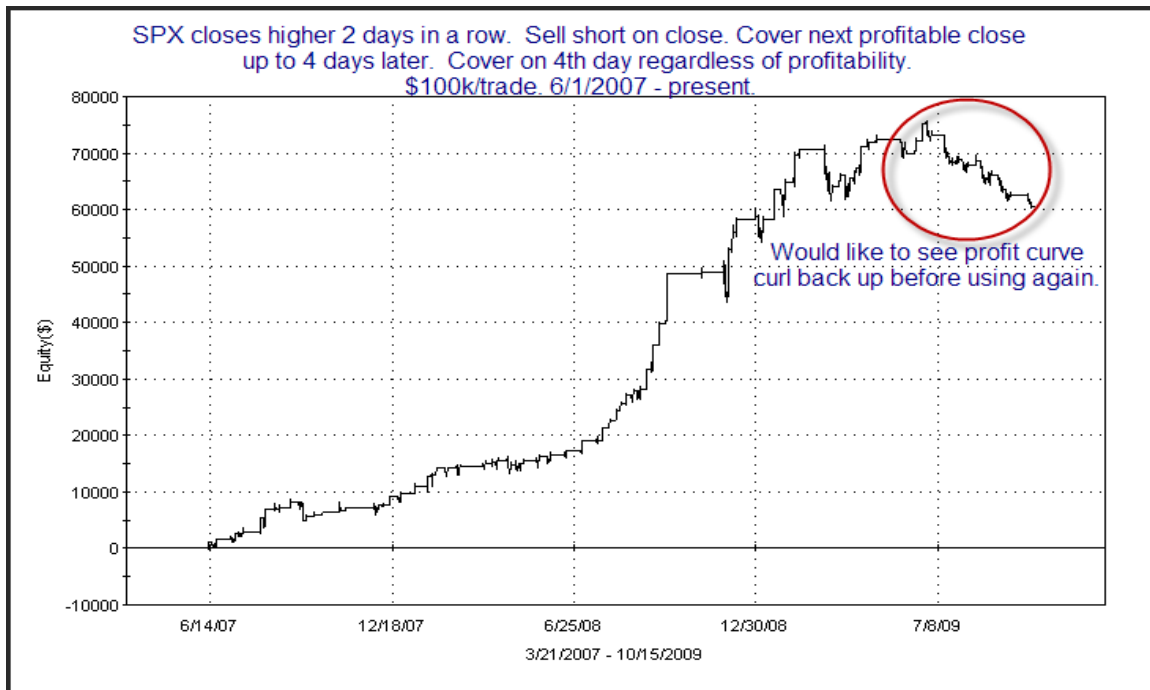
The market gapped down on Thursday but bears were unable to take control. After trading in a tight range for most of the day an afternoon rally saw the market once again close higher. The Nasdaq closed just barely above breakeven and the S&P gained 0.4%. Breath was about breakeven. The NYSE Up Issues % was 49% and the Up Volume % 51%. Total volume declined from yesterday's level but was still above average.

The CBOE Equity Put/Call Ratio closed extremely low again today. The Quantifinder pulled up 2 studies related to ratio. The 1st is the one I showed last night that suggested a 1-day reading more than 25% below the 200ma often leads to a move down the next day. The 2nd study looks at extremely low 3-day readings. This on contrasted the 1-day study and actually showed somewhat bullish results. This would seem to suggest a sharp 1-day drop implies an overly bullish attitude that is often accompanied by a swift correction. When there is a sharp move lower for multiple days that may suggest real strength in the market and should not be trifled with. In any event the p/c ratio is not showing a clear edge right now, either bullish or bearish. In cases like this I simply ignore the studies associated with the indicator.

“2 Days Up In Chop” also showed up today. I haven't used this as an indicator since August. It has not been effective during this strong rally. This is partially due to the rising market and partially due to the less choppy conditions as shown on the “Trend vs. Chop” chart which is updated on the website each week.

http://www.quantifiableedges.com/members/charts.php#Trend_vs._Chop_Daily

Here is an updated profit curve for “2 Days Up In Chop”.



I'm looking at both this chart and the Trend vs. Chop chart for signs of improvement before using "2 Days Up In Chop" as a possible indicator again.

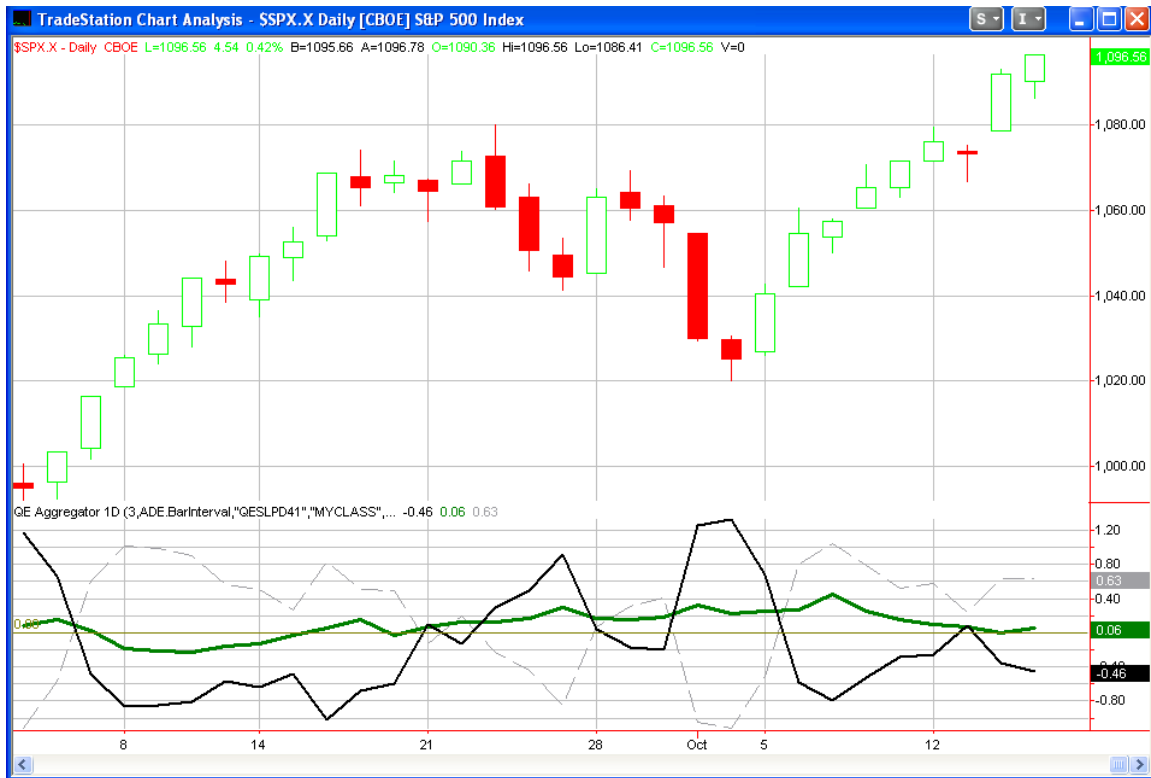
From a short-term trading perspective there is very little right now suggesting a strong edge either way. The market remains overbought, but as I've demonstrated numerous times over the past few weeks, overbought in a strong uptrend is not a situation ripe for shorting. In such cases strength often begets more strength. If you're not sitting in an intermediate-term trend trade and trailing your stops up then situations like the present require a good amount of patience. Pullbacks are needed for long entries. For short entries you need an edge that goes beyond "overbought". A few such edges were noted last night in the form of put/call activity and an unfilled gap situation. While those didn't play out today, they're the kind of edges I'm looking for. Other possible edges could arise from exceptionally low volume or a very narrow range. Another possibility might be extreme weakness in leading sectors. Should these situations arise and suggest a downside edge I may take shots on the short side. More likely is that I'll miss the drop but will identify some bullish edges to go long when the market again pulls back.

Speaking of "overbought in an uptrend", here is another example of the kinds of studies I conducted tonight.

<p style="text-align: center;">SPX closes above its upper Bollinger Band for the 2nd day in a row. It also closes at a 50-day high the last 2 days. Buy on close. Sell X days later. \$100k/trade. 1960 - present.</p>										
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: Profit Factor	All: Avg Trade
10	69,325.16	112	76	36	67.86	1,875.16	-2,032.98	0.92	1.95	618.97
9	55,329.65	114	71	43	62.28	1,844.95	-1,759.58	1.05	1.73	485.35
8	47,342.90	114	72	42	63.16	1,673.30	-1,741.30	0.96	1.65	415.29
7	39,060.80	114	69	45	60.53	1,589.92	-1,569.85	1.01	1.55	342.64
6	29,315.07	118	65	53	55.08	1,548.65	-1,346.18	1.15	1.41	248.43
5	26,691.36	121	72	49	59.50	1,292.69	-1,354.75	0.95	1.40	220.59
4	31,363.70	124	73	51	58.87	1,105.30	-967.12	1.14	1.64	252.93
3	22,838.03	125	69	55	55.20	889.61	-700.82	1.27	1.59	182.70
2	10,311.67	125	64	61	51.20	696.50	-561.71	1.24	1.30	82.49
1	7,651.44	125	66	57	52.80	432.06	-366.05	1.18	1.37	61.21

I won't be adding this to the active studies list because we already have two studies on there that are based on looking at the markets strong momentum. It does act as further confirmation that trying to short the strong momentum based on noting but the strong momentum is a losing battle.

The [Aggregator](#) chart is updated below.



The Equity P/C Ratio study dropping off the list tonight was enough to push the studies back to a net positive outlook. This in turn flipped the green Aggregator line back above zero. The overbought nature of the market is expressed in the Differential line which remains strongly below 0. Overbought with positive expectations I consider to be a neutral configuration. I'm going to wait a day and see if a better setup emerges.

The Aggregator System switched from short to flat at the close today. This gave back some of the gains made on Wednesday. I anticipated the switch to flat in last night's letter. Personally, I managed to escape the short position a little better than breakeven. The fact that I anticipated getting flat at the end of the day allowed me trail a stop intraday. If I felt the short signal was going to last through tomorrow then I would have been much less inclined to trail a stop. The system is basically an end-of-day system, but traders using vehicles other than mutual funds can use the information in numerous ways. I'll be looking to add to the Aggregator working document in a couple of weeks once I get a chance to work out some more ideas. I'd also be willing to share any information provided to me by others who may have downloaded the Aggregator history and formulated interesting tests of their own.

{information below repeated from yesterday}

The system page was updated about 10 minutes before the close to alert subscribers of the likely flat signal. This page is typically updated 10-15 minutes before the close each day. A tweet is sent out as soon as it is updated to alert and remind subscribers of the update. To sign up to receive the tweets you may go to:

<http://twitter.com/qerob>

Subscribers may also note that the full Aggregator & Differential value history is now available on the Proprietary Data Download page. Those that wish to download it for testing or incorporating into their own strategies may do so. It will NOT be updated each night as the other data files are. Instead I will update it occasionally. Of course the Aggregator chart is shown each night in the letter. A link to the proprietary data download page is below.

<http://www.quantifiableedges.com/members/data.php>

Intermediate-term Outlook (2 weeks – 2 months)– updated 10/12 – somewhat bullish

The intermediate-term outlook is unchanged since the 10/12 Letter. That Letter may be accessed using the link below:

[2009-10-12 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

(Catapult Presentation Part 1) (Catapult Presentation Part 2)

Open Catapult Triggers

none

Catapult for ETF's Trades

none

Broad Market Large Cap CBI - 0

Additional New Trade Ideas

A full listing of system triggers can be found at the [system triggers page](#) each night. I will cherry pick some of my favorite setups from the S&P 100 and ETF lists along with occasional other trade ideas to track below.

None tonight.

Active Trades Table

none.

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